BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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Application of Pacific Gas and Electric Company Proposing Cost of Service and Rates for Gas Transmission and Storage Services for the Period 2015 - 2017 (U39G).	Application 13-12-012 (Filed December 19, 2013)
And Related Matter	Investigation 14-06-016 (Filed June 26, 2014)

NOTICE OF EX PARTE COMMUNICATIONS

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June 17, 2016

Pursuant to Rule 8.4 of the Commission's Rules of Practice and Procedure, The Utility Reform Network (TURN) gives notice of the following ex parte communications.

On June 14, 2016, beginning at 4 pm, Thomas Long, TURN's Legal Director met with Ken Koss and Scott Murtishaw, advisors to President Picker. The meeting took place at the Commission's offices in San Francisco. The communication consisted of oral presentations accompanied by written handouts (same handouts for both meetings), a copy of which are attached.

In the meeting, Mr. Long discussed the following points, most of which are addressed in TURN's handouts: (1) With respect to the PD's rate impact on residential customers, the Commission should focus on the Transport Only rate increases (79.9% without amortization and 97.0% with amortization) because that rate best reflects the costs covered by the GRC and GT&S cases and excludes commodity costs over which the Commission has little control; (2) natural gas commodity costs are now at historic lows and EIA is forecasting increasing prices for 2017 – increases in gas commodity costs would only exacerbate the harsh bill impacts of the PD's rate increases; (3) PG&E's own analysis (Ex. TURN-75, attached) showed that rates even lower than what the PD would approve would make PG&E's bundled residential gas rates higher than average rates in all other regions of the country; (4) the PD's resolution for ECA Phases 1 and 2, Hydrostatic Station Testing, Critical Documents, and post-1961 pipeline hydrotesting would erroneously allow PG&E up front recovery for acknowledged unreasonable costs and should be modified as explained in the attached handout; (5) the pipeline hydrotesting unit cost should be reduced to $0.84 million per mile, for the reasons explained in the attached handout; (6) the PD's minimal disallowances for corrosion control fail to hold shareholders appropriately responsible for the consequences for PG&E's violation of regulatory requirements, as detailed in the attached

handout, even though ratepayers fully funded PG&E to conduct a compliant and prudent corrosion control program; (7) the allocation of the $850 million penalty offset and the amortization period should be addressed in a separate decision after all the other issues are addressed in a first decision – new rates, not including the $850 million offset and amortization of the undercollection could go into effect upon issuance of that first decision; (8) TURN believes the five-month disallowance for the delay caused by PG&E's egregious ex parte violations is fully within the Commission's discretion and supported by sound legal analysis; and (9) applying the five-month disallowance after applying the $850 million penalty offset effectively dilutes and reduces the $850 million penalty, contrary to the intent of the San Bruno Penalties decision.

Dated: June 17, 2016

Respectfully submitted,

By: _____/s/_____
Thomas J. Long

Thomas J. Long, Legal Director
THE UTILITY REFORM NETWORK

ATTACHMENTS
TURN HANDOUTS DISTRIBUTED AT EX PARTE MEETINGS

Handout concerning customer impacts (1 page)

Handout concerning up front funding for unreasonable costs and hydrotesting unit costs (2 pages)

Handout concerning PG&E mismanagement of corrosion control (1 page)

Chart showing PG&E's comparison of proposed GT&S rates to residential rates in other regions of the United States (1 page)

TURN Handout
June 10, 2016 APM

While Disconnections from PG&E Service Continue to Increase at an Alarming Pace,
The PD Would Add Unaffordable Gas Rate Increases
On Top of the Large 2014 GRC Gas Rate Hikes

The PD would impose an unprecedented 83% GT&S revenue requirement increase on top of the 35% 2014 GRC increase for Gas Distribution:

GRC/GT&S PD RR Increases ($, 000's omitted)

	2014 Pre-GRC	2014 Post-GRC	2015	2016	2017	Total % Increase
Gas Distribution	1,295	1,559	1,631	1,742	1,742	34.5%
GT&S	715	715	995	1,183	1,309	83.1%
Total	2,010	2,274	2,626	2,925	3,051	51.8%

Note: Table excludes amortization impacts

These revenue requirement increases translate into the following rate increases (that will be unaffordable for many households:

% Increase in Residential Rates from 2014 to 2017 Under PD[1]

	Transport Only		Bundled	
	No Amortization	Amortization	No Amortization	Amortization
Without $850M offset (App. J)	79.9%	97.0%	35.9%	45.6%
With $850M offset (App. G)	77.1%	92.0%	33.9%	42.3%

- In terms of average bill impacts, the bundled rate increase (w/amortization and $850M offset) translates to a $17.42 increase per month, $209 per year, for non-CARE customers, and $13.94 per month, $167 per year, for CARE customers.
- In heavy usage winter months, the bill increase for a non-CARE customer could be as high as $40 per month.

These steep rate and bill increases would be imposed against the backdrop of a serious problem of steadily mounting disconnections for PG&E's customers:

PG&E Disconnections for Non-Payment

	2010	2011	2012	2013	2014	2015
Annual disconnects	179,071	188,756	235,138	251,881	280,354	309,600
% Annual Increase	-	4.7%	24.6%	7.1%	11.3%	10.4%
Cumulative % Increase	-	4.7%	31.3%	40.7%	56.6%	72.9%

[1] Amortization increases in the table are based on the "end-use rate" method for recovering undercollection amounts (PG&E scenarios A and C), using an 18-month amortization period. PG&E's 2017 figures do not include projected increases in gas commodity costs or any increase to gas distribution rates in 2017, both unrealistic assumptions. In its 2017 GRC (A.15-09-001), PG&E has requested a 4.9% increase to gas distribution rates in 2017.

TURN Handout
June 10, 2016 Ex Parte Meetings

The PD Should Be Corrected to Not Allow Up Front Funding for Unreasonable Costs

Summary of Problem: For several programs, PD finds much of PG&E's forecast unreasonable based on past imprudence, but gives PG&E full up-front funding anyway, with the idea that eventually ratepayers will get refunds of unreasonable costs through a balancing account, or other means.

Affects: PD Section 8.2 (ECA Phases 1 and 2, Hydrostatic Station Testing); PD Section 8.3 (Critical Documents); PD Section 6.2.3 (Hydrotesting)

Why This is a Problem: (1) Legal error to allow recovery of acknowledged unreasonable costs; (2) Gives PG&E ability and incentive to avoid any refunds to customers by maximizing spending on recoverable costs – "use it or lose it"

ECA Phases 1 and 2:

- Purpose is to correct recordkeeping deficiencies for station components so that PG&E can support MAOP with traceable, verifiable and complete records.
    - Station component equivalent of pipeline MAOP validation program, which was fully disallowed from recovery in PSEP, D.12-12-030.
- PD would erroneously allow PG&E to recover costs for pre-1956 components even though the recordkeeping obligations pre-dated 1956:
    - PD (p. 125) itself finds this recordkeeping is required by PU §451;
    - D.12-12-030 (p. 87) said PG&E was responsible for "maintaining records of the location and engineering details of system components" from the "day it installed facilities and equipment for the system."
- None of ECA Phase 1 and 2 costs are appropriate for recovery. Full $24.3 million should be disallowed.

Hydrostatic Station Testing (HST)

- This work is contingent on results of ECA Phase 1 and 2 work, neither or which had begun in early 2015. In light of the delay in this decision, it is extremely likely that little, if any, HST work will begin in this rate case period.
- Solution: rather than allowing up-front recovery ($5.9M expense) for work that most likely will not be done, allow PG&E to track any costs in incurs in a memorandum account for potential future recovery, subject to reasonableness review.

Critical Documents

- As with ECA Phase 1 and 2 and HST, PD (p. 130) finds that work related to post-1956 facilities is to remedy past recordkeeping deficiencies and should not be recovered.
- Again, pre/post 1956 is the wrong line to draw as recordkeeping obligations pre-dated 1956. So, full $11.6M expenses should be disallowed.
    - Alternatively, if the Commission still wants to use 1956 as a dividing line, then adopt Indicated Shippers recommendation to disallow 85% of PG&E's forecast based on record evidence that 85% of facilities were installed post-1955.

TURN Handout
June 10, 2016 Ex Parte Meetings

Pipeline Hydrotesting

- Here's the breakdown of hydrotesting miles in PG&E's forecast that the PD (p. 59) endorses:

Untested Pipe By Installation Period

	Miles	Percentage
Pre-1956 or IM tests	315	61.8%
Jan 1, 1956 – June 30, 1961	98	19.2%
July 1, 1961 - Present	97	19.0%
Totals	**510**	100%

- Even though there is no dispute that PG&E should not be allowed to recover costs of the 97 post-7/1/61 miles, the PD does not disallow these costs -- it only disallows 19.2% of the forecast, not 38.2%. Instead, the PD expects PG&E to test "up to 50" additional post-1961 miles at shareholder cost.
    - In other words, PG&E is expected to test up to 560 miles.
- This is error:
    - (1) PG&E always said 510 miles was near its limit and now says it is unlikely to test even 510 miles. This means that effectively there will be no disallowance for the post-1961 miles.
    - (2) PD doesn't explain "up to 50 miles" when PG&E's own forecast showed 97 miles.
- The PD should be corrected to disallow 38.2% of forecast costs, which reduces expenses by about $33M.

The PD's Hydrotesting Unit Cost Figure Should Be Corrected

- Here is the trend of unit costs shown in the record:

Hydrotesting Unit Costs ($M/mile)

2011 Recorded	2012 Recorded	2013 Recorded	2014 Forecast
1.42	1.03	0.84	1.21

- Even though the PD (p. 58) finds that unit costs should decrease over time, the PD approves PG&E's forecast of $0.97M/mile, which is a significant increase over 2013 recorded costs.
- PG&E admitted that 2013 costs were representative of expected unit costs for the 2015-2017 period, based on expected test length.
- PG&E conceded that 2014 forecast costs were based on tests of shorter length than expected in 2015-2017 period and thus unrepresentative.
- Correcting the unit cost to $0.84M reduces hydrotesting expenses by about $24M.

TURN Handout
June 1, 2016 APM

Corrosion Control at PG&E – A Legacy of Violations and Poor Management

Despite corrosion being one of the most significant safety risks for transmission pipe, the record contains abundant evidence that PG&E's corrosion control program was riddled with violations and poor practices, much of it from PG&E's own internal auditors and paid consultants (who generally don't like to criticize the party that's paying them)

Audit Findings and PG&E Self-Reported Violations

- 49 separate CPUC adverse audit findings from 2008 through 2013
- 11 self-reported violations by PG&E

2010 Internal Audit Reports

- Finds violations concerning, e.g., (1) identification of corrosion leaks; (2) corrosion leak repairs; (3) low levels of cathodic protection; (4) operator qualifications; (5) remediation of contacted casings
- Contacted casings: despite federal guidelines requiring corrective action within 6 months of finding a contacted casing, PG&E failed to initiate corrective action for 35 of 39 known contacted casings.

2011 Atmospheric Corrosion Internal Audit Report

- Finds many violations, including: (1) no or late follow-up on reported issues; (2) missing inspection records; (3) operator qualifications; (4) requiring 20% wall loss before taking action, instead of taking action if any deterioration is occurring; (5) failure to inspect exposed piping with limited access.

2014 Exponent (PG&E's paid outside consultants) Report

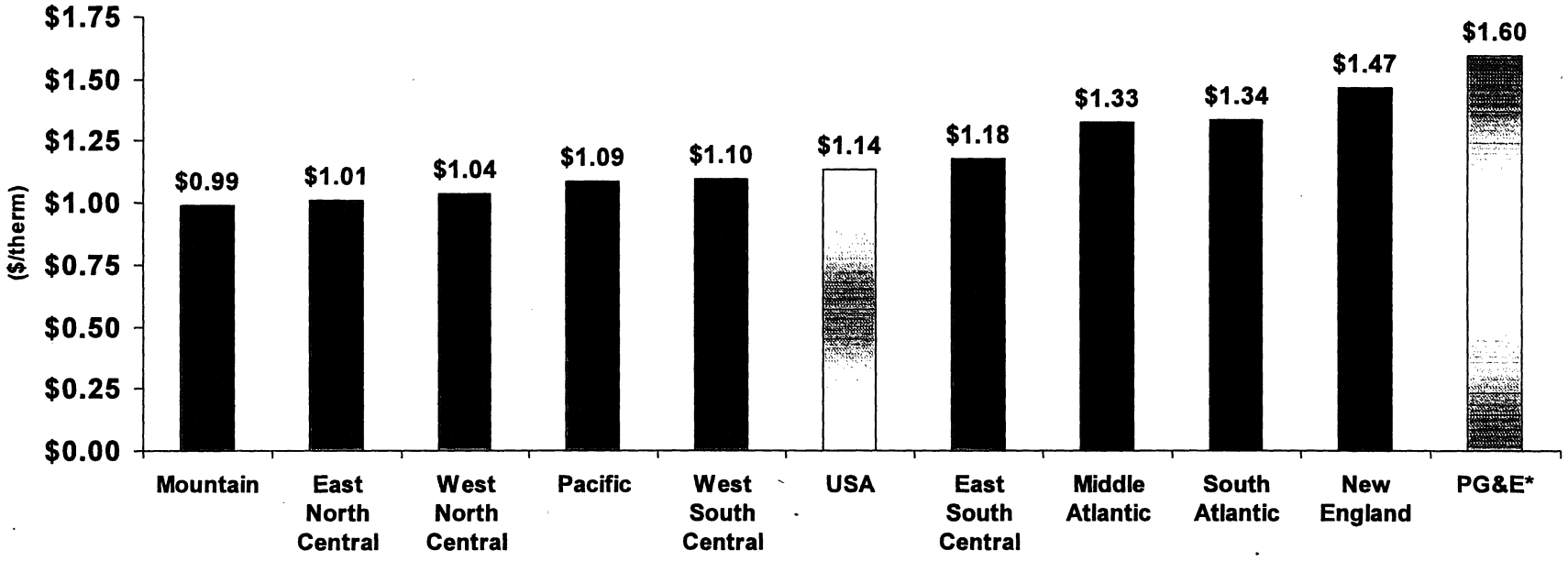
- 33 pages of specific problems called out, including: (1) casings: lack of procedures for monitoring certain casings; (2) atmospheric corrosion: several identified violations, e.g., failure to properly inspect air-to-soil transitions and exposed piping.
- Causes of identified problems include: (1) corrosion viewed as low priority; (2) inconsistent interpretation of requirements; (3) lack of accountability; (4) lack of asset information; (5) lack of centralized, complete, and accurate data; (6) lack of knowledge/training; (7) lack of program oversight.

Other evidence of Casings violations

Despite 49 CFR § 192.491(c), which requires adequate records to show that corrosive conditions do not exist or that corrosion control is adequate, PG&E did not have basic information to show that it was properly managing contacted casings. PG&E did not have:

- Any information showing when it initiated action to mitigate contacted casings;
- Available information showing when it completed remediation of contacted casings;
- A standard for maximum amount of time for mitigating contacted casings.

2015 Residential Average Gas Rate By Region



Source: American Gas Association, *2011 Gas Facts* (2012, 2013, 2014 and 2015 reflect 2% CPI adjustment over 2011)

*PG&E source: GRC Application and Management Review Draft of 2015 GT&S Rate Case Application